



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION.

COURSE CODE: BFN 302 **CREDIT UNIT: 3**
COURSE TITLE: Monetary Theory and Policy **TIME ALLOWED: 2^{1/2} HOURS**
NOTE:
1. To attempt question number one (1) and any other three
2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each
3. Present all your points in coherent and orderly manner

QUESTION 1 (COMPULSORY)

(a) Give the three key assumptions of the Irvin Fisher's Quantity Theory of Money **(3 Marks)**
 (b) Given that the quantity of money (M) is N10, 000,000 in an economy, the velocity of circulation of money (V) is 20; and the total output (T) is 4,000,000 units. What will the average price level (P) be? **(7 Marks)**

(c) Using the details below, calculate M1, M2, M3 and M4 for a given economy.

Currency with Public	100,000
Demand Deposit with Banks	50000
Other Deposit with CB	30000
Investment in government securities	20000
Time deposits with banks	250000
Post office saving bank deposits	10000

(8 Marks)

(d) Country XYZ's export price index is 100 with an import price index of 80.

- (i) What is the country's terms of trade **(5 Marks)**
 (ii) Interpret the country's terms of trade. **(2 Marks)**

QUESTION TWO

- (a) How would you describe government revenue? **(3 Marks)**
 (b) Explain at least Six(6) sources of government revenue **(12 Marks)**

QUESTION THREE

- (a) Nations and companies with foreign operations are faced with the dilemma of three (3) different types of foreign exchange risk exposures. Name and briefly explain these exposures
(3 x 3 = 9 Marks)
- (b) Presents three (3) points in favour and three (3) points against fixed exchange rate
(3 + 3 = 6 Marks)

QUESTION FOUR

- (a) Explain Monetary Policy to a Layman (3 Marks)
- (b) What four (4) key objectives does Monetary Policy seeks to accomplish
(12 Marks)

QUESTION FIVE

- (a) Differentiate between Balance of Trade and Balance of Payment. (3Marks)
- (b) Argue in favour and against trade restrictions (Give 3 points for and 3 points against)
(12 Marks)

QUESTION SIX

- (a) Define National Income following the Income Approach (3 Marks)
- (b) Give three (3) reasons for differences in National Income (6 Marks)
- (c) Present three(3) difficulties in measuring National Income (6 Marks)